

#### § 1788.26

of the dishonest or fraudulent acts. This disclosure, however, need not be of the same degree required to establish a claim under a proof of loss or conviction of a false report violation.

#### § 1788.26 Disbursement of recovered sums.

Sums recovered under any fidelity bond by the borrower for a loss of funds advanced under the notes or recovered by the government for any loss under such bond shall, unless otherwise directed by the mortgagees, be applied to the prepayment of indebtedness pro rata on the notes secured by the mortgage or to construct or acquire facilities, approved by the mortgagees, which will become part of the mortgaged property.

#### § 1788.27 Requirements of coverage.

Workers' compensation and employers' liability insurance covering all employees of the borrower shall be maintained by borrowers in amounts required by law. If the borrower or any of its employees is not subject to the workers' compensation laws of the state, or states, in which the borrower conducts its operations, then its workers' compensation policy shall provide voluntary compensation coverage to the same extent as though the borrower and its employees were subject to such laws. The policy shall include:

(a) Occupational disease liability.

(b) Employers' liability insurance.

(c) "Additional medical" coverage of not less than \$10,000 in those states where full medical coverage is not statutory.

When employers' liability insurance is provided by a separate policy issued to a cooperative or mutual organization, it shall include "Endorsement Waiving Immunity From Tort Liability." See 1788.5(c).

#### § 1788.28 Limits required.

RUS requires that public liability insurance be maintained covering the ownership liability and all operations of the borrower with limits for bodily injury or death of not less than \$1 million each occurrence—\$1 million aggregate per policy period and with limits for property damage of not less than \$1 million per occurrence and \$1 million

#### 7 CFR Ch. XVII (1–1–99 Edition)

aggregate for the policy period. Borrowers have the option to purchase a \$1 million single limit coverage for bodily injury and property damage. This required insurance may be in a policy or policies of insurance, primary and excess including the umbrella or catastrophe form.

#### § 1788.29 Contractual liability insurance.

Contractual liability insurance shall be included as part of the public liability policy when the borrower executes an agreement or contract in which it assumes additional liability. The provisions of any "hold harmless" agreement should be referred to the borrower's insurance company for specific references in the policy.

#### § 1788.30 Provision on explosives.

When explosives are used by employees of the borrower, the property damage exclusion clause for blasting shall be deleted.

#### § 1788.31 Buried plant provision.

Borrowers contemplating construction of buried plant shall immediately obtain an endorsement from their insurance carrier deleting the exclusion in the standard public liability insurance policy which provides that the policy does not apply to injury to, or destruction of, wires, pipes, conduits, mains, sewers, or other similar property below the surface of the ground if the injury or destruction is caused by, or occurs during, the use of mechanical equipment for the purpose of excavating or drilling. For electric borrowers the rating classification includes this coverage automatically.

#### § 1788.32 Appliance sales coverage.

When there are retail sales, repair, or installations of electrical appliances involved in borrowers' operations, borrowers shall purchase product liability damage.

#### § 1788.33 Railroad right-of-way exclusion.

General liability policies in use contain a restriction pertaining to easement agreements involving construction on or adjacent to a railroad which are not automatically covered. Where

construction is on a railroad right-of-way under an easement, borrowers shall purchase a general liability policy that specifically includes this necessary insurance coverage.

**§ 1788.34 Pollution exclusion.**

Liability policy forms exclude coverage for “bodily injury” or “property damage” arising out of the actual, alleged or threatened discharge, dispersal, release or escape of pollutants. Borrowers may wish to discuss this exclusion with their insurance companies.

**§ 1788.35 Liability requirements.**

RUS requires borrowers have liability insurance on all motor vehicles, trailers, semitrailers, and aircraft used in the conduct of the borrower’s business, whether owned, nonowned, or hired by the borrower, with bodily injury limits of not less than \$1 million for each person and \$1 million for each occurrence, and property damage limits of \$1 million for each occurrence; in connection with aircraft liability, also passenger bodily injury limits of \$1 million per person and \$1 million for each occurrence.

**§ 1788.36 Comprehensive requirements. requirements.**

RUS requires borrowers have comprehensive or separate fire, theft, and windstorm insurance on all owned motor vehicles, trailers, and aircraft having a unit value in excess of \$1,000. The amount of coverage shall not be less than the actual cash value of the property insured.

**§ 1788.37 Coverage requirement.**

Borrowers shall have fire insurance, including the extended coverage endorsement, on each building and its contents, and on each storage location of materials, supplies, poles, and cross-arms having a value at any one location in excess of \$5,000, or in excess of 1 percent of the total plant value, whichever is larger. Such coverage shall be in an amount of not less than 80 percent of the current cost to replace the property new, less depreciation. Surveys should be conducted periodically, every two years at a min-

imum, to establish property values on an actual cash value basis.

**§ 1788.38 RUS endorsement.**

When the borrower is one of several affiliated companies and the coverage is provided by naming the borrower as one of several insureds under a single policy, the policy shall be amended to include the provisions of the RUS Endorsement in § 1788.5(b).

**§ 1788.39 Types of fire insurance policies.**

A fire insurance policy may be written on the following basis:

- (a) Specified amount basis.
- (b) Blanket form basis.

(c) Monthly reporting form basis. The reporting type of policy should include the limit of liability for each location. Whenever it appears that the value at any one location may exceed the limit of liability included in the policy, an endorsement to the policy should be promptly secured increasing the limit of liability for that particular location.

(d) Inland Marine Floater basis. Floater form policies on an all-risk basis are recommended to provide coverage for construction equipment, radio/telephone equipment, and pay stations furnished for use by subscribers and located on their premises or vehicles, and for radio or telephone equipment installed in borrowers’ vehicles, for equipment being transported, and for materials stored at various locations.

**§ 1788.40 Coverage requirement.**

Borrowers shall purchase and maintain flood insurance for buildings in flood hazard areas to the extent available and required under the National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1973 (Pub. L. 93-234). The insurance should cover, in addition to the building, any machinery, equipment, fixtures, and furnishings contained in the building.

**§ 1788.41 Endorsements required.**

The National Flood Insurance Program provides for a standard flood insurance policy; however, other existing insurance policies which provide flood